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SUBJECT: Electricity in Erbil: Operating on Private Generators.

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This is a Kurdistan Regional Reconstruction Team (RRT) cable.

SUMMARY

¶1. (U) The city of Erbil established a system of government-subsidized private generators to provide electricity to meet the region's power shortages after Saddam cut power in 1998. While dangerous, noisy and crudely wired, these generators provide most consumers reliable power for an average of eight hours per day.
The Kurdistan Regional Government (KRG) Ministry of Electricity has licensed two private (BOO) power plants. Its plan depends on raising prices for electricity from the grid based on consumers' proven willingness to pay near-market prices to the private generators. The key to success will be providing reliable power from the grid and implementing an efficient system for collecting fees.

Background

¶2. (U) When Iraqi Kurdistan gained de facto autonomy in 1992, it had little power generation of its own. Despite the break with Baghdad, the region continued to receive some power from the national grid. But in 1998, Saddam's regime cut power from the grid and forced the region to seek alternatives.

¶3. (U) At the time, the region's two hydropower stations at Dokan and Derbandikhan had an installed capacity of 480 MW. The lack of maintenance at the stations, in transmission and distributions systems reduced generation to an average of 185 MW in the summer and 48 MW in the winter. Erbil also had two small diesel power stations with combined 40 MW for essential loads.

¶4. (U) In response to power shortages, hundreds of entrepreneurs had rushed to fill the need by setting up private power businesses with diesel generators in neighborhoods around Erbil. The businessmen provided power to neighborhoods when power from the grid was off. The KRG supported these electricity providers by providing diesel fuel at subsidized prices.

The Current System

¶5. (U) The system continues to this day. According to Ministry of Electricity figures, there are 681 private diesel generation operations within the municipality of Erbil. Most are dangerous, noisy and crudely jury-rigged systems with the generator and fuel tanks encased in a temporary cement block enclosures. As a rule, customers pay in advance for an average 7 and 9 hours service alternating daily.

¶6. (U) The Erbil Governorate, the KRG Ministry of Electricity's Department of Diesel Generators (MoE) and the Ministry of Oil have formed an informal committee to supervise these operations and provide diesel fuel at a subsidized of 450 dinars per liter versus a market price of 660 dinars (or, at 1233 dinar/dollar, US 36 cents versus 53 cents per liter). Government-regulated generators receive the fuel on a monthly basis, and in return, guarantee consumers a price of 9,000 dinars (USD 7.30) per ampere for 7 to 9 hours. The government has nearly doubled these prices since 2003 due to increased costs. Non-regulated private generators, numbering around 200, charge approximately 12,000 dinars (USD 9.73) per ampere. Most businesses and some private homes also run their own small generators.

So what does this mean to the consumer?

¶7. (U) RRT staff visited several neighborhoods and private generators to see how the system works in practice. A typical operator on park land behind the Ministry of Electricity runs two generators of 400 KVa and provides 1,300 amperes of electricity to 450 houses. In return for the guaranteed price per ampere, this operation receives 15,000 liters of diesel per month at a subsidized price. Sabah Hamadamin, a former government employee, buys six amperes of electricity for a household that includes two school-age boys; it costs him 54,000 dinars (about 43 USD) per month. A newlywed couple nearby buys half that amount. Generally, households buy four amperes to run lights, a refrigerator, and television - but no air conditioners.

¶8. (U) In theory, consumers also pay for electricity off the grid, but in practice many do not. In August 2007, less than 56 percent of Erbil city's 145,000 customers paid their nominal monthly bill of three dollars. The overall average across the region was slightly lower at 46 percent. Low collection rates and nominal prices mean there is little capital for improving the system. In addition to low collection rates, the Erbil Governorate provides 10 million liters of subsidized fuel per month to the private generators; even

so, still many grouse that they do not receive their full allocations.

¶9. (U) Most businesses, small and large, operate their own generators and receive power from the grid, though for a 20 to 30 percent higher price than charged for consumers. The KRG Ministry of Electricity does, however, provide continuous reliable power to essential services like the hospital, water pumping projects, schools and so forth.

Will consumers pay? Yes, but can the government deliver?

¶10. (U) There is good news here. Consumers in this region have shown that they are willing to pay for electricity to a reliable provider. The trick for the government is getting the consumers to stop using private generators or purchasing fuel for small private generators for their homes and businesses. The KRG Ministry of Electricity's plan (reftel) includes the licensing of a Build, Own, & Operate (BOO) 500 MW power station at Pir Daud, 10 km away from Khurmala gas field. The power project is expected to be fully operational by spring 2008. The Ministry of Electricity will provide the fuel and purchase power for 2.8 cents/KWH, significantly less than it currently charges.

¶11. (U) Recovering generation costs will require a reliable system for collecting fees. The ministry is in the process of carrying out a tariff study and a master-plan for electricity sector up to the year 2020 with USAID technical assistance. It is also preparing solicitations for private investment for a 'Prepaid Digital Metering Project'. It has contacted manufacturers of these meters including Schneider, Actaris and Landis and Gear.

Comment

¶12. (U) Will power from the grid be reliable enough to make consumers be willing to pay for the real cost of generation? The KRG Ministry of Electricity believes it can meet this challenge, but it will take time. In the meantime, Erbil's system of government-subsidized private generators will play a crucial role in powering homes and businesses.